

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



05040603

ANNUAL AUDITED REPORT

FORM X-17A-5

PART III

FACING PAGE

| OMB APPROVAL | |
|--------------------------|------------------|
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SEC FILE NUMBER

8- 30851

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/04 AND ENDING 12/31/04
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: AllianceBernstein Investment Research Management, Inc

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM ID. NO.

1345 Avenue of the Americas

(No. and Street)

New York

(City)

New York

(State)

10105

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Patrick E. Ryan

(914) 993-3245

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP

(Name - if individual, state last, first, middle name)

757 Third Avenue

(Address)

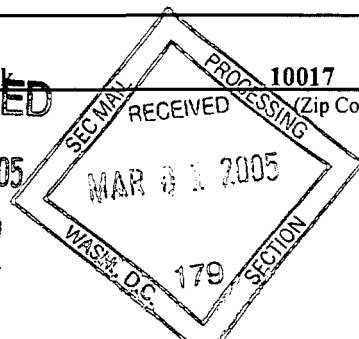
New York

(City)

PROCESSED

APR 04 2005

THOMSON
FINANCIAL



CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

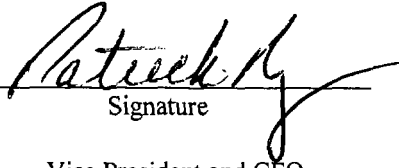
SEC 1410 (06-02)

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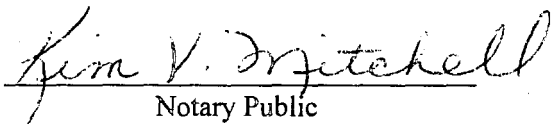
OATH OR AFFIRMATION

I, Patrick E. Ryan, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AllianceBernstein Investment Research and Management, Inc., as of December 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:


Signature

Vice President and CFO

Title


Notary Public

KIM V MITCHELL
Notary Public, State of New York
No. 01MI5065197
Qualified in Queens County
Commission Expires Sept. 3, 2006

This report** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirement Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



ALLIANCEBERNSTEIN INVESTMENT RESEARCH AND MANAGEMENT, INC.
(an indirect wholly-owned subsidiary of
Alliance Capital Management L.P.)

Statement of Financial Condition

December 31, 2004

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
AllianceBernstein Investment Research and Management, Inc.

We have audited the accompanying statement of financial condition of AllianceBernstein Investment Research and Management, Inc. (the Company, an indirect wholly-owned subsidiary of Alliance Capital Management L.P.) as of December 31, 2004, that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit of a statement of financial condition includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit of a statement of financial condition includes examining, on a test basis, evidence supporting the amounts and disclosures in that statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of AllianceBernstein Investment Research and Management, Inc. as of December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 27, 2005

ALLIANCEBERNSTEIN INVESTMENT RESEARCH AND MANAGEMENT, INC.
(an indirect wholly-owned subsidiary of
Alliance Capital Management L.P.)

Statement of Financial Condition

December 31, 2004

ASSETS

| | |
|--|---------------------------|
| Cash and cash equivalents | \$ 172,387,307 |
| Receivables: | |
| Brokers and dealers | 89,135,227 |
| Fees from Alliance Mutual Funds | 30,648,296 |
| Due from affiliates, net..... | 23,820,439 |
| Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$2,268,004 | 304,309 |
| Deferred sales commissions, net of accumulated amortization of \$554,481,402 and contingent deferred sales commissions received of \$150,367,197 | 254,277,056 |
| Prepaid expenses and other assets | <u>1,302,373</u> |
| Total assets | <u>\$ 571,875,007</u> |

LIABILITIES AND STOCKHOLDER'S EQUITY

| | |
|---|---------------------------|
| Liabilities: | |
| Payables: | |
| Alliance Mutual Funds | \$ 124,880,888 |
| Brokers and dealers | 57,995,087 |
| Accounts payable and accrued expenses | 36,380,149 |
| Due to affiliates, net | <u>37,869,045</u> |
| | <u>257,125,169</u> |
| Subordinated notes payable to Alliance Capital Management Corporation of Delaware..... | <u>302,000,000</u> |
| Commitments and Contingencies (See Note 4) | |
| Stockholder's equity: | |
| Common stock, par value \$.10 per share; 1,000 shares authorized, 100 shares issued and outstanding..... | 10 |
| Additional paid-in capital | 16,504,990 |
| Accumulated deficit and other comprehensive income (loss) | <u>(3,755,162)</u> |
| Total stockholder's equity..... | <u>12,749,838</u> |
| Total liabilities and stockholder's equity | <u>\$ 571,875,007</u> |

See Accompanying Notes to Statement of Financial Condition.

ALLIANCEBERNSTEIN INVESTMENT RESEARCH AND MANAGEMENT, INC.
(an indirect wholly-owned subsidiary of
Alliance Capital Management L.P.)

Notes to the Statement of Financial Condition

December 31, 2004

1. Organization and Summary of Operations

Effective October 29, 1999, Alliance Capital Management Holding L.P., formerly known as Alliance Capital Management L.P. ("Alliance Holding"), reorganized by transferring its business to Alliance Capital Management L.P., a newly formed private partnership ("Alliance Capital"), in exchange for all of the Units of Alliance Capital (the "Reorganization"). As part of the Reorganization, Alliance Holding offered each Alliance Holding Unitholder the opportunity to exchange Alliance Holding Units for Alliance Capital Units on a one-for-one basis. Alliance Capital recorded the transferred assets and assumption of liabilities at the amounts reflected in Alliance Holding's books and records on the date of transfer. Since the Reorganization, Alliance Capital has conducted the diversified investment management services business formerly conducted by Alliance Holding, and Alliance Holding's business has consisted of holding Alliance Capital Units and engaging in related activities. Alliance Capital Management Corporation ("ACMC"), an indirect wholly-owned subsidiary of AXA Financial, Inc. ("AXA Financial"), is the general partner of both Alliance Holding and Alliance Capital. AXA Financial is an indirect wholly-owned subsidiary of AXA which is a holding company for an international group of insurance and related financial services companies. Alliance Capital is a registered investment adviser under the Investment Advisers Act of 1940, as amended ("Investment Advisers Act"). Alliance Holding Units are publicly traded on the New York Stock Exchange ("NYSE") under the ticker symbol "AC". Alliance Capital Units do not trade publicly and are subject to significant restrictions on transfer.

At December 31, 2004, Alliance Holding owned approximately 80,486,556 Alliance Capital Units, or 31.7%, of the issued and outstanding Alliance Capital Units. ACMC owns 100,000 general partnership Units in Alliance Holding and a 1% general partnership interest in Alliance Capital. As of December 31, 2004, AXA, AXA Financial, AXA Equitable Life Insurance Company (a wholly-owned subsidiary of AXA Financial and formerly known as The Equitable Life Assurance Society of the United States, "AXA Equitable") and certain subsidiaries of AXA Equitable beneficially owned 154,724,365 Alliance Capital Units, or 60.9%, of the issued and outstanding Alliance Capital Units and 1,444,356 Alliance Holding Units, or 1.8%, of the issued and outstanding Alliance Holding Units which, including the general partnership interests in Alliance Capital and Alliance Holding, represents an economic interest of 61.3% in Alliance Capital. As of December 31, 2004, SCB Partners Inc. owned 16,320,000 Alliance Capital Units, or 6.4%, of the issued and outstanding Alliance Capital Units.

AllianceBernstein Investment Research and Management, Inc. (the "Company") is a wholly-owned subsidiary of Alliance Capital Management Corporation of Delaware ("ACMC of Delaware"), which is a wholly-owned subsidiary of Alliance Capital. The Company serves as distributor and/or underwriter for certain registered investment companies managed by Alliance Capital ("Alliance Mutual Funds"). The Company is registered as a broker-dealer under the Securities and Exchange Act of 1934.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company's statement of financial condition has been prepared in accordance with accounting principles

ALLIANCEBERNSTEIN INVESTMENT RESEARCH AND MANAGEMENT, INC.

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Notes to the Statement of Financial Condition

generally accepted in the United States of America. The preparation of the statement of financial condition requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments including money market accounts with average maturities of three months or less. Due to the short-term nature of these instruments, this recorded value approximates fair value.

Furniture, Equipment and Leasehold Improvements, Net

Furniture, equipment and leasehold improvements, net are stated at cost, less accumulated depreciation and amortization. Depreciation is recognized on a straight-line basis over the estimated useful lives of eight years for furniture and three to six years for equipment and software. Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful lives or the terms of the related leases.

Deferred Sales Commissions, Net

Sales commissions paid to financial intermediaries in connection with the sale of shares of open-end Alliance mutual funds sold without a front-end sales charge are capitalized as deferred sales commissions and amortized over periods not exceeding five and one-half years, the periods of time during which deferred sales commissions are generally recovered from distribution services fees received from those funds and from contingent deferred sales charges ("CDSC") received from shareholders of those funds upon the redemption of their shares. CDSC cash recoveries are recorded as reductions of unamortized deferred sales commissions when received.

Management tests deferred sales commissions for recoverability quarterly, or monthly when events or changes in circumstances occur that could significantly increase the risk of impairment of the asset. Undiscounted future cash flows estimated by management to be realized from the asset are compared to its recorded amount. Management assesses the results of these analyses, and other relevant factors, to determine if the asset is recoverable. If management determines the asset is not recoverable, an impairment condition would exist and the impairment loss would be measured as the amount by which the recorded amount of the asset exceeds its estimated fair value. Estimated fair value is determined using management's best estimate of future cash flows discounted to a present value amount. See Note 4. "Commitments and Contingencies".

Mutual Fund Underwriting Activities

Purchases and sales of shares of Alliance Mutual Funds in connection with the underwriting activities of the Company are recorded on trade date. Receivables from brokers and dealers for sale of shares of Alliance Mutual Funds are generally realized within three business days from trade date, in conjunction with the settlement of the related payables to Alliance Mutual Funds for share purchases.

ALLIANCEBERNSTEIN INVESTMENT RESEARCH AND MANAGEMENT, INC.
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Notes to the Statement of Financial Condition

3. Income Taxes

The Company is included in the consolidated federal income tax return filed by APMC of Delaware. Accounts payable and accrued expenses include \$1.4 million payable to APMC of Delaware for income taxes at December 31, 2004. In addition, the Company files separate state and local income tax returns. Federal, state and local income tax expense is computed on a separate company basis.

There are no deferred income tax amounts for the current or prior years.

4. Commitments and Contingencies

Deferred Sales Commission Asset

Alliance Capital's mutual fund distribution system (the "System") includes a multi-class share structure that permits Alliance Capital's open-end mutual funds to offer investors various options for the purchase of mutual fund shares, including both front-end load shares and back-end load shares. For front-end load shares, the Company pays sales commissions to financial intermediaries distributing the funds from the conventional front-end sales charge it receives from investors at the time of sale. For back-end load shares the Company pays sales commissions to the financial intermediaries at the time of purchase. However, investors who redeem before the expiration of the minimum holding period (which ranges from one year to four years) pay a contingent deferred sales charge ("CDSC") to the Company. The Company also receives higher ongoing distribution services fees from the mutual funds.

Payments of sales commissions to financial intermediaries in connection with the sale of back-end load shares under the System are capitalized as deferred sales commissions ("deferred sales commission asset") and amortized over periods not exceeding five and one-half years, the periods of time during which the deferred sales commission asset is expected to be recovered. CDSC cash recoveries are recorded as reductions of unamortized deferred sales commissions when received. The amount recorded for the net deferred sales commission asset was \$254.3 million at December 31, 2004. Payments of sales commissions made to financial intermediaries in connection with the sale of back-end load shares under the System, net of CDSC received of \$32.8 million, totaled \$44.6 million during 2004.

Management tests the deferred sales commission asset for recoverability quarterly, or monthly when events or changes in circumstances occur that could significantly increase the risk of impairment of the asset. Significant assumptions utilized to estimate future average assets under management and undiscounted future cash flows from back-end load shares include expected future market levels and redemption rates. Market assumptions are selected using a long-term view of expected average market returns based on historical returns of broad market indices. At December 31, 2004, management used average market return assumptions of 5% for fixed income and 8% for equity to estimate annual market returns. Higher actual average market returns would increase undiscounted future cash flows, while lower actual average market returns would decrease undiscounted future cash flows. Future redemption rate assumptions were determined by reference to actual redemption experience over the five-year, three-year and one-year periods ended December 31, 2004. Based on the actual redemption rates, including increased redemption rates experienced more recently, management used a range of expected annual redemption rates of 19%, 23% and 25%, at December 31, 2004, calculated as a percentage of average assets under management. An increase in the actual rate of redemptions would decrease undiscounted future cash flows, while a decrease in the actual rate of redemptions would increase undiscounted future cash flows. These assumptions are reviewed and updated quarterly, or monthly when events or changes in circumstances occur that could significantly increase the risk of impairment of the asset. Estimates of undiscounted future cash flows and

ALLIANCEBERNSTEIN INVESTMENT RESEARCH AND MANAGEMENT, INC.

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Notes to the Statement of Financial Condition

the remaining life of the deferred sales commission asset are made from these assumptions and the aggregate estimated undiscounted future cash flows are compared to the recorded value of the deferred sales commission asset. Management considers the results of these analyses performed at various dates. As of December 31, 2004, management determined that the deferred sales commission asset was not impaired. If management determines in the future that the deferred sales commission asset is not recoverable, an impairment condition would exist and a loss would be measured as the amount by which the recorded amount of the asset exceeds its estimated fair value. Estimated fair value is determined using management's best estimate of future cash flows discounted to a present value amount.

During 2004, equity markets increased by approximately 11.0% as measured by the change in the Standard & Poor's 500 Stock Index and fixed income markets increased by approximately 4.0% as measured by the change in the Lehman Brothers' Aggregate Bond Index. The redemption rate for domestic back-end load shares was approximately 25.1% in 2004. Declines in financial markets or higher redemption levels, or both, as compared to the assumptions used to estimate undiscounted future cash flows, as described above, could result in the impairment of the deferred sales commission asset. Due to the volatility of the capital markets and changes in redemption rates, management is unable to predict whether or when a future impairment of the deferred sales commission asset might occur. Any impairment would reduce materially the recorded amount of the deferred sales commission asset with a corresponding charge to earnings.

Legal Proceedings

Revenue Sharing-Related Matters

On June 22, 2004, a purported class action complaint entitled *Aucoin, et al. v. Alliance Capital Management L.P., et al.* ("Aucoin Complaint") was filed against Alliance Capital, Alliance Holding, ACMC, AXA Financial, ABIRM, certain current and former directors of the AllianceBernstein Funds, and unnamed Doe defendants. The Aucoin Complaint names the AllianceBernstein Funds as nominal defendants. The Aucoin Complaint was filed in the United States District Court for the Southern District of New York by an alleged shareholder of the AllianceBernstein Growth & Income Fund. The Aucoin Complaint alleges, among other things, (i) that certain of the defendants improperly authorized the payment of excessive commissions and other fees from AllianceBernstein Fund assets to broker-dealers in exchange for preferential marketing services, (ii) that certain of the defendants misrepresented and omitted from registration statements and other reports material facts concerning such payments, and (iii) that certain defendants caused such conduct as control persons of other defendants. The Aucoin Complaint asserts claims for violation of Sections 34(b), 36(b) and 48(a) of the Investment Company Act, Sections 206 and 215 of the Advisers Act, breach of common law fiduciary duties, and aiding and abetting breaches of common law fiduciary duties. Plaintiffs seek an unspecified amount of compensatory damages and punitive damages, rescission of their contracts with Alliance Capital, including recovery of all fees paid to Alliance Capital pursuant to such contracts, an accounting of all AllianceBernstein Fund-related fees, commissions and soft dollar payments, and restitution of all unlawfully or discriminatorily obtained fees and expenses.

Since June 22, 2004, nine additional lawsuits making factual allegations substantially similar to those in the Aucoin Complaint were filed against Alliance Capital and certain other defendants, and others may be filed. All nine of the lawsuits (i) were brought as class actions filed in the United States District Court for the Southern District of New York, (ii) assert claims substantially identical to the Aucoin Complaint, and (iii) are brought on behalf of shareholders of AllianceBernstein Funds.

ALLIANCEBERNSTEIN INVESTMENT RESEARCH AND MANAGEMENT, INC.
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Notes to the Statement of Financial Condition

Securities Litigation-related Matters

On January 12, 2005, a purported class action complaint entitled *Charles Davidson and Bernard Samson, et al. v. Bruce W. Calvert, et al.* ("Davidson Complaint") was filed against Alliance Capital, ABIRM, various current and former directors of APMC, and unnamed Doe defendants in the United States District Court for the Southern District of New York by alleged shareholders of AllianceBernstein Funds. The Davidson Complaint alleges that Alliance Capital, as investment adviser to the AllianceBernstein Funds, and the other defendants breached their fiduciary duties arising under Sections 36(a), 36(b) and 47(b) of the Investment Company Act by failing to ensure that the AllianceBernstein Funds participated in certain securities class action settlements for which the Funds were eligible. Plaintiffs seek an unspecified amount of compensatory damages and punitive damages and forfeiture of all commissions and fees paid to the defendants.

With respect to the matters discussed above, management of Alliance Capital, Alliance Holding and the Company is unable to estimate the impact, if any, that the outcome of these matters may have on Alliance Capital's, Alliance Holding's or the Company's results of operations or financial condition.

Alliance Capital, Alliance Holding and the Company are involved in various other inquiries, administrative proceedings and litigation, some of which allege substantial damages. While any proceeding or litigation has the element of uncertainty, Alliance Capital, Alliance Holding and the Company believe that the outcome of any one of the other lawsuits or claims that is pending or threatened, or all of them combined, will not have a material adverse effect on Alliance Capital's, Alliance Holding's, or the Company's results of operations or financial condition.

5. Related Party Transactions

The Company provides distribution and other services for Alliance Mutual Funds for which it was paid a reimbursement of \$323.3 million by Alliance Capital pursuant to a service agreement. During 2004, a subsidiary of AXA Financial distributed Alliance Mutual Funds for which it received distribution payments which totaled \$6.3 million for the year ended December 31, 2004. In addition, the Company paid certain other affiliates \$20.9 million for mutual fund distribution and marketing services. Included in due to affiliates, net at December 31, 2004 are distribution payments owed to a subsidiary of AXA Financial aggregating \$1.6 million.

Employees of the Company except those hired after October 2, 2000, are generally eligible to participate, under similar terms offered to employees of Alliance Capital, in a qualified noncontributory defined benefit retirement plan maintained by Alliance Capital. Benefits are based on years of credited service, average final base salary and primary Social Security benefits. In addition, employees of the Company are eligible to participate in a 401(k) plan maintained by Alliance Capital. Contributions are limited to the maximum amount deductible for federal income tax purposes.

Certain employees of the Company participate in unfunded, non-qualified deferred compensation plans maintained by Alliance Capital. Aggregate awards made to these plans by Alliance Capital on behalf of the employees of the Company for 2004 were \$10.7 million.

Alliance Capital charged the Company for its pro rata share of certain general overhead expenses incurred by Alliance Capital.

The Company has loans outstanding payable to APMC of Delaware aggregating \$302.0 million at December 31, 2004 under various subordinated loan agreements. The agreements have been approved by the National Association of Securities Dealers, Inc. and the loans are available for treatment as equity capital in computing net

ALLIANCEBERNSTEIN INVESTMENT RESEARCH AND MANAGEMENT, INC.
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Notes to the Statement of Financial Condition

capital under the Securities and Exchange Act's Uniform Net Capital Rule ("Rule 15c3-1"). To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. At December 31, 2004, the aggregate weighted average interest rate of the subordinated notes payable was 3.21%. The aggregate maturities of the subordinated notes payable during the years ended December 31, 2006 and 2007 are \$170.0 million and \$132.0 million, respectively. Interest payable on such loans aggregated \$2.6 million at December 31, 2004 and is included in due to affiliates, net.

6. Net Capital

The Company is subject to the minimum net capital requirements imposed by Rule 15c3-1, which requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. At December 31, 2004, the Company's ratio of aggregate indebtedness to net capital was 5.1 to 1 and the Company had net capital of \$32.3 million, which was \$21.3 million in excess of its required net capital of \$11.0 million.



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report
On Internal Control Pursuant to Rule 17a-5

The Board of Directors
AllianceBernstein Investment Research and Management, Inc.

In planning and performing our audit of the financial statements and supplementary schedules of AllianceBernstein Investment Research and Management, Inc. (the Company, an indirect wholly-owned subsidiary of Alliance Capital Management L.P.), for the year ended December 31, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2004, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 27, 2005